

October 29, 2009

Rating	Accumulate
Price	Rs320
Target Price	Rs328
Implied Upside	2.5%
Sensex	16,053

(Prices as on October 29, 2009)

Trading Data

Market Cap. (Rs bn)	126.1
Shares o/s (m)	394.1
Free Float	23.0%
3M Avg. Daily Vol ('000)	70.4
3M Avg. Daily Value (Rs m)	20.7

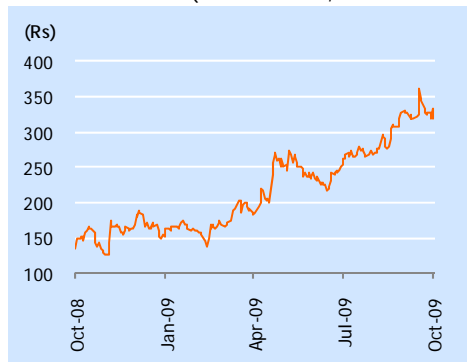
Major Shareholders

Promoters	77.0%
Foreign	8.5%
Domestic Inst.	3.7%
Public & Others	10.8%

Stock Performance

(%)	1M	6M	12M
Absolute	(2.6)	72.9	137.1
Relative	2.1	32.2	59.6

Price Performance (RIC: SUTV.BO, BB: SUNTV IN)



Source: Bloomberg

■ **Results:** Sun TV Network's (Sun TV's) Q2FY10 results stood above our expectations. Revenue for the quarter reported an impressive growth of 34.7% YoY to Rs3.2bn; this was contributed by a robust 37% YoY increase in the advertisement revenues of Rs1.94bn as also a whopping 157% YoY growth in DTH-backed subscription of Rs400m during the quarter. Operating profit margins during the quarter stood at 76.0%, expanding by 190bps YoY. However, on a sequential basis, a 71.3% increase in other expenditure contracted the margins by 172bps. Net profit for the quarter grew by 20.5% YoY to Rs1.31bn.

■ **DTH-backed subscription revenues continue to grow:** In Q2FY10, Sun TV had 5.1m DTH-based subscribers, as compared to 4.8m in Q2FY10. In absolute terms, DTH-backed subscription revenues grew from Rs365m in Q1FY10 to Rs400m in Q2FY10. Majority of Sun TV's DTH subscribers come from *Sun Direct*, which is targeting for a DTH subscriber base of 6m by end of FY10 and has aggressive plans to become a pan-India player.

■ **Beyond broadcasting:** Sun TV's movie business under Sun Pictures had a relatively lean quarter, with revenues of Rs50m as against Rs230m in Q1FY10. The company has two small budget and one big budget movie lined up for Q3FY10..

■ During the quarter, the company reduced its stake in its radio subsidiary South Asia FM from 65% to 60%, as Astro increased its stake to 20% by infusing Rs792m. Further, with consolidated cash on books of Rs3.15bn, the company is looking to further scale up its radio business as new licenses come up for bidding under Phase III. For FY10, Sun TV has guided its entire radio business losses at Rs600m (Sun TV's share of Rs350m).

■ **Outlook & Valuation:** Sun TV has seen a robust ad revenue growth in Q2FY10; this again has purely come from rise in utilisation of existing and more importantly newly launched channels. A possible ad rate hike in H2FY10, considering the company is already operating closer to peak utilisation levels, can result in a significant upside to current earnings estimates. Steady growth in the DTH-based subscription revenues and ability to deliver on new business as per guidance (movie business RoI of 15% in FY09) lends us further comfort. However, with price to earnings trading at 25.5x FY10E and 21.5x FY11E, the stock offers limited upside. We recommend 'Accumulate' on dips.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	8,699	10,394	13,304	15,771
Growth (%)	28.3	19.5	28.0	18.5
EBITDA (Rs m)	5,975	7,368	9,484	11,242
PAT (Rs m)	3,267	3,683	4,948	5,869
EPS (Rs)	8.3	9.3	12.5	14.9
Growth (%)	32.3	12.7	34.3	18.6
Net DPS (Rs)	2.5	2.5	3.0	3.5

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	68.7	70.9	71.3	71.3
RoE (%)	24.7	23.4	25.8	25.7
RoCE (%)	21.1	19.5	22.6	22.7
EV / sales (x)	14.1	11.9	9.2	7.6
EV / EBITDA (x)	20.5	16.7	12.8	10.6
PE (x)	38.6	34.3	25.5	21.5
P / BV (x)	8.7	7.4	5.9	5.2
Net dividend yield (%)	0.8	0.8	0.9	1.1

Source: Company Data; PL Research

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Q2FY10 Result Overview

(Rs m)

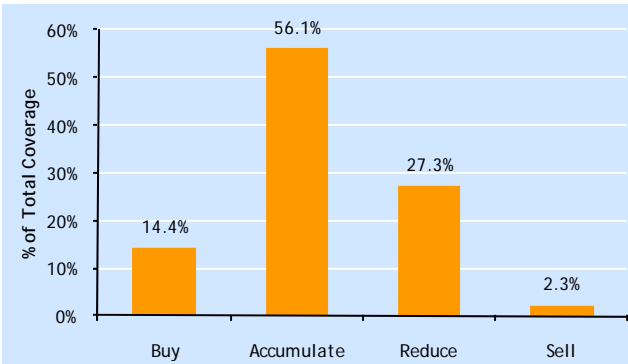
Y/e March	Q2FY10	Q2FY09	YoY gr. (%)	Q1FY10	H1FY10	H1FY09	YoY gr. (%)
Net Sales	3,204	2,379	34.7	2,877	6,080	4,615	31.8
Cost of Revenues	208	219	(4.8)	208	417	416	0.0
<i>% of net sales</i>	<i>6.5</i>	<i>9.2</i>		<i>7.2</i>	<i>6.8</i>	<i>9.0</i>	
Staff Cost	319	256	24.6	311	630	501	25.7
<i>% of net sales</i>	<i>10.0</i>	<i>10.8</i>		<i>10.8</i>	<i>10.4</i>	<i>10.9</i>	
Other Expenditure	241	141	71.3	122	363	251	44.5
<i>% of net sales</i>	<i>7.5</i>	<i>5.9</i>		<i>4.2</i>	<i>6.0</i>	<i>5.4</i>	
Total Expenses	768	616	24.8	640	1,409	1,168	20.6
<i>% of net sales</i>	<i>24.0</i>	<i>25.9</i>		<i>22.3</i>	<i>23.2</i>	<i>25.3</i>	
Operating profit	2,436	1,763	38.1	2,236	4,672	3,446	35.6
<i>OPM (%)</i>	<i>76.0</i>	<i>74.1</i>		<i>77.7</i>	<i>76.8</i>	<i>74.7</i>	
Other income	115	372	(69.1)	142	257	535	(52.0)
EBITDA	2,550	2,135	19.5	2,378	4,929	3,981	23.8
<i>EBITDA margins (%)</i>	<i>79.6</i>	<i>89.7</i>		<i>82.7</i>	<i>81.1</i>	<i>86.3</i>	
Depreciation	571	464	23.1	550	1,121	742	51.1
Interest	2	21	(91.3)	6	8	21	(61.4)
Profit before tax	1,978	1,650	19.8	1,822	3,800	3,219	18.1
Tax	672	567	18.5	624	1,296	1,110	16.8
<i>Tax rate (%)</i>	<i>34.0</i>	<i>34.4</i>		<i>34.3</i>	<i>34.1</i>	<i>34.5</i>	
PAT	1,306	1,083	20.5	1,198	2,504	2,109	18.7

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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